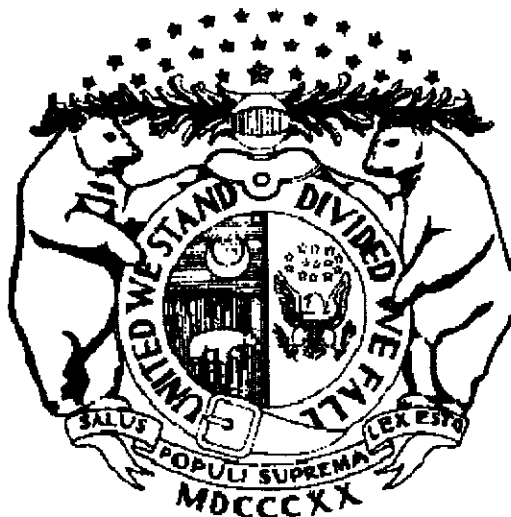


REPORT OF
FINANCIAL EXAMINATION

**Martinsburg Mutual
Insurance Company**

As of:

December 31, 2005



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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August 25, 2006
Martinsburg, MO

Honorable Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your financial examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Martinsburg Mutual Insurance Company

hereinafter referred to as such or as the "Company". The Company's home office and principal place of business is located at 104 Jefferson; Martinsburg, Missouri 65264; telephone number (573) 492-6168. This examination was conducted at the home office in Martinsburg, Missouri. The examination began August 21, 2006, and concluded August 25, 2006.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001 for the year ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

Comments - Previous Examination Report

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. Comment: "It was recommended that the Board of Directors set forth the Company's policies in written form. These policies should be maintained in an up-to-date manual and made available to Company management and personnel."

Company Response: The Company agreed to develop a policy manual.

Current Examination Findings: The Company has not developed a policy manual; that contain an investment policy.

HISTORY

General

The Company was originally organized in 1905. On December 31, 1984, the Articles of Incorporation were amended and the Company received a Certificate of Incorporation. The Company was organized under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies) and was issued a Certificate of Authority by the Missouri Division of Insurance.

Management and Control

A board of seven directors provides oversight of the Company. Each director serves a three-year term with two or three directors elected each year. Directors are elected at annual member meetings held on the second Saturday in January. Special meetings of the members may be called

upon petition of one-fourth of the members and proxy voting is permitted. The Board meets twice a year, although special meetings and committee meetings may be held more frequently. Board members receive \$100 annually.

The Board of Directors consisted of the following members as of December 31, 2000:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
Jim L. Gastler 217 State Road N Martinsburg, Missouri 65264	Farmer/Agent	2005 to 2008
Mike Fennewald, Vice-president 33949 Audrain Road 744 Martinsburg, Missouri 65264	Farmer	2005 to 2008
Mary Arens 33 Arens Lane Martinsburg, Missouri 65264	Housewife	2003 to 2006
Lester Arens 33 Arens Lane Martinsburg, Missouri 65264	Retired/farmer	2004 to 2007
Martin Aulbur P.O. Box 121 Martinsburg, Missouri 65264	U.S. Postal Worker	2005 to 2008
Martin Bertels, President 37824 Highway BB Ladonia, Missouri 63352	Farmer	2004 to 2007
James Hale 505 State Road N Martinsburg, Missouri 65264	Farmer	2003 to 2006

In addition, Linda Gastler is the Company's secretary and treasurer.

The Company has not developed a policy manual in response to a recommendation in the previous report of examination. It is recommended that the Company develop a manual that includes an investment policy, underwriting policy, claims handling and all other functions of an insurance company.

Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors and officers. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. A review of Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged receipt of the previous Missouri Department of Insurance Report of Financial Examination during its meeting on August 20, 2001. Attendance at the Board and annual meetings appears to be satisfactory.

FIDELITY BOND AND OTHER INSURANCE

The Company has acted to minimize the risk exposure of the business. The Company has a fidelity bond totaling \$25,000 through Western Surety Company. This meets the minimum amount recommended by the National Association of Insurance Commissioners for a company of this size. The Company provides errors and omission coverage for its agent. This coverage, provided through MAMIC Mutual Insurance Company, has an aggregate liability limit of \$500,000. MAMIC Mutual Insurance Company also provides a directors and officers liability policy, with an aggregate limit of \$500,000.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has one employee, Linda Gastler, the Secretary/Treasurer. She receives a salary but no other benefits. The Company has no pension plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire and windstorm coverages primarily in Audrain, Callaway and Montgomery counties. Liability coverages are offered to the Company's policyholders through a cooperative arrangement with Grinnell Mutual Insurance Company. There one agent writing for the Company. The Company has no advertising program.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by the American Association of Insurance Services and issues continuous renewable policies. The respective writing agent conducts inspections and performs the underwriting. The agent makes initial reviews for fire and wind claims. The agent also gathers information for liability claims and passes those claims on to the reinsurer. Outside adjusters are used for larger claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2005	2004	2003	2002	2001
Admitted Assets	\$812,560	\$775,189	\$763,226	\$701,043	\$654,756
Liabilities	\$507	\$507	\$308	\$431	\$425
Gross Assessments	\$109,012	\$104,835	\$100,827	\$88,021	\$82,584
Losses Incurred	\$16,866	\$26,945	\$7,272	\$14,806	\$45,022
Investment Income	\$27,254	\$27,684	\$25,580	\$30,407	\$30,689
Underwriting Income	\$10,013	(\$16,922)	\$36,727	\$14,184	\$14,985
Net Income	\$37,372	\$11,763	\$62,307	\$46,281	\$46,723
Policies In Force	128	126	127	116	118

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. Gross assessments have been stable and increasing slightly. However, the number of policies in force has been constant. The Company has managed to pay its share of losses and all other expenses through premium income. The Company's total assets have grown largely because of the income generated from investments.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Insurance Company (the reinsurer). The Company has a combined per risk excess of loss and aggregate annual aggregate excess of loss reinsurance agreement which is for both fire and windstorm coverage. Under the per risk portion of the agreement, the Company retains \$25,000 per risk and the reinsurer's limits are \$500,000 per risk. Under the annual aggregate portion of the contract, the reinsurer is liable for 100% of the Company's aggregate net losses that exceed \$30,822. The premium paid to the reinsurer is a

percentage based on the Company's gross risk in force.

The Company also has a "Cooperative Contract" with Grinnell to provide liability coverages to its policyholders. The Company receives a service fee of 22% of the premiums.

ACCOUNTS AND RECORDS

The Company's financial records are manually maintained. All income and expenses are recorded through the Company's checking account. The Bank of Martinsburg provides a record keeping and reporting service that generates a general ledger and financial reports each month. The information in these reports is based primarily on the transactions through the checking account.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. The annual statement was prepared on a cash basis and did not include an unearned premium reserve. The Company has adequate surplus to accommodate a reserve had one been established.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial with respect to their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for individual annual statement items.

ADMITTED ASSETS

Bonds	\$0
Stocks	0
Real Estate	0
Cash on Deposit	812,560
Reinsurance Recoverable on Paid Losses	0
Reinsurance Recoverable on Unpaid Losses	0
Interest Due and Accrued	<u>0</u>
Total Assets	<u>\$812,560</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$0
Ceded Reinsurance Payable	0
Unearned Premium	0
Federal Income Tax Payable	0
Payroll Taxes Payable	<u>507</u>
Total Liabilities	<u>\$507</u>
Guaranty Fund	\$100,000
Other Surplus	<u>\$712,053</u>
Total Policyholder Surplus	<u>\$812,053</u>
Total Liabilities and Policyholder Surplus	<u>\$812,560</u>

STATEMENT OF INCOME

Net Assessment/Premium Income	\$65,109
Other Insurance Income	0
<i>Less: Net Losses</i>	(17,344)
<i>Less: Underwriting Expenses</i>	<u>(37,751)</u>
Underwriting Income	\$10,013
Net Investment Income	\$27,254
Other Income	<u>104</u>
Gross Profit or (Loss)	37,372
<i>Less: Federal Income Tax</i>	<u>0</u>
Net Profit or (Loss)	<u>\$37,372</u>

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2004	\$774,682
Net Income (reported by the Company)	37,372
Examination Changes (Net)	<u>0</u>
Policyholders' Surplus, December 31, 2000	<u>\$812,053</u>

NOTES TO THE FINANCIAL STATEMENTS

There are no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Management and Control, page 4

The Company should develop a policy manual to ensure the Board's policies and directions are clearly communicated to all personnel. In particular, the Board should adopt an investment policy that ensures only approved investments are acquired.

SUBSEQUENT EVENTS

On January 31, 2006, the Company purchased a building to serve as its home office in Martinsburg.


ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Martinsburg Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Larry J. Kleffner, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Larry J. Kleffner, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 2nd day of Oct., 2006.

My commission expires:




CARRIE L. COUCH
My Commission Expires
August 8, 2010
Moniteau County
Commission #06429682


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved.


Frederick G. Heese, CFE, CPA
Audit Manager - Kansas City
Missouri Department of Insurance